1990 ANNUAL REPORT

PUBLIC SERVICE PENSION BOARD

One Adelaide Street East, Suite 1200
Toronto, Ontario
M5C 2X6

Business Vision Statement

The Public Service Pension Board is committed to being the leader in the pension industry in providing the best quality service at the lowest cost to employees and the government; delivering top service, prudent investment of pension funds and quality advice to Government on pension policy.

ACTUARIES
William M. Mercer Limited

AUDITORS
Ernst & Young

LEGAL COUNSEL
Blake, Cassels & Graydon

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Ontario Public Service

Serving 85,000 Ontario civil servants and 33,000 Ontario pensioners

The Ontario Public Service

Ministry of Agriculture and Food
Ministry of the Attorney General
Ministry of Citizenship
Ministry of Colleges and Universities
Ministry of Community and Social Services
Ministry of Consumer and Commercial Relations
Ministry of Correctional Services
Ministry of Culture and Communications
Ministry of Education
Ministry of Energy
Ministry of the Environment
Ministry of Financial Institutions
Minister for Francophone Affairs
Ministry of Government Services
Office of the Greater Toronto Area
Ministry of Health
Ministry of Housing
Minister Responsible for Human Rights, the Disabled, Seniors and Race Relations
Ministry of Industry, Trade and Technology
Ministry of Intergovernmental Affairs
Ministry of Labour
Management Board of Cabinet
Ministry of Mines
Ministry of Municipal Affairs
Ministry Responsible for Native Affairs
Ministry of Natural Resources
Ministry of Northern Development
Ministry of Revenue
Ministry of Skills Development
Ministry of the Solicitor General
Ontario Provincial Police
Ministry of Tourism and Recreation
Ministry of Transportation
Ministry of Treasury and Economics
Minister Responsible for Women's Issues
Alcoholism and Drug Addiction Research Foundation
Algonquin Forest Authority
Housing Authorities to the Housing Development Act
Liquor Boards of Ontario
Niagara Parks Commission
Ontario Waste Management Corporation
Province of Ontario Council for the Arts
Teachers' Superannuation Commission
Toronto Area Transit Operating Authority
Workers' Compensation Appeals Tribunal

Chairman's Message

W. H. SOMERVILLE
Chairman

On January 1, 1990 the Province of Ontario enacted new legislation governing the pension plan of the employees and pensioners of the Province and established the "Public Service Pension Board". The purpose was to assume responsibility for the independent management of the assets and liabilities of the pension plan from Government and to provide quality benefits at the lowest cost to both employers and employees. The Public Service Pension Plan covers 85,000 employees of the Province as well as 33,000 pensioners.

I was both honoured and humbled to be asked on January 1, 1990 by the Premier of Ontario to accept the position of Chairman for the newly created Public Service Pension Board. My mandate is to provide the highest quality service to both employees and pensioners as well as delivering the maximum investment return with minimum risk to the plan. It is also my desire and intention, through prudent management of the assets of the plan and control of expenditures and liabilities to contain or reduce increases in the contributions required by both the employers and employees. I, along with the Board, am committed to these objectives.

During 1990 we engaged six fund managers to provide investment services to the plan. The five balanced fund managers and the fixed income fund manager have been instructed to invest the approximately $1 billion of liquid assets in Canadian and American stocks as well as Canadian and American bonds up to seven years in maturity. Our investment philosophy has concentrated on the security of the investment so that the maximum return is earned with minimum risk.

In a year in which major losses have been sustained in the market, our pension plan not only had no losses, but realized an overall investment return of 11.6% The total assets of the plan at December 31, 1990 are $7.845 billion, an increase of $907.8 million or 13.1% from the previous year.

The preliminary estimated actuarial unfunded liability of the plan is in the area of $2 billion. Once the actuarial valuation of the plan is finalized, the Province is committed to payment of the unfunded liability over a period of forty years and has made interim payments against that commitment since January, 1990.

The Public Service Pension Board is well served by an outstanding Board of Directors with each individual bringing his or her specialized skills to the job. They are identified at the back of this annual report.

We have been fortunate in attracting an outstanding staff in 1990. Our President, Mr. J.J. Wilbee was the former Superintendent of Insurance for the Province. The Vice-Presidents, Leonard Lu, Jon-Jo Douglas, Robert Kay and Brian Mills bring many years of experience to their positions in our organization.

I would like to extend our most sincere thanks for an outstanding contribution to a successful first year of operations to all Directors, Officers and staff members.

W. H. SOMERVILLE
Chairman

Auditors' Report

To the Directors of the
Public Service Pension Board:

We have audited the statement of net assets available for benefits of the Public Service Pension Board as at December 31, 1990 and the statements of changes in net assets available for benefits and administrative expenses for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Board as at December 31, 1990 and the changes in net assets available for benefits and administrative expenses for the year then ended in accordance with generally accepted accounting principles.

Toronto, Canada
February 21, 1991

Ernst & Young

Chartered Accountants

Statement of Net Assets Available for Benefits as at December 31, 1990
(000's)

ASSETS	
Investments (Note 4)	$ 7,246,302
Contributions Receivable	55,697
Accrued Interest	551,361
	607,058
Fixed Assets (Note 5)	3,100
TOTAL ASSETS	**7,856,460**
LIABILITIES	
Accounts Payable and Accrued Liabilities	7,666
Income Tax Withheld on Pension Payments	3,787
TOTAL LIABILITIES	**11,453**
NET ASSETS AVAILABLE FOR BENEFITS	**$ 7,845,007**

See accompanying notes

Approved on behalf of the Board:

William H. Somerville
Director

Ronald C. Brown
Director

Statement of Changes in Net Assets Available for Benefits for the Year ended December 31, 1990
(000's)

INCREASE IN NET ASSETS	
Investment Income (Note 3a)	$ 816,055
Contributions:	
Members	238,991
Sponsors	247,111
Interim payments re unfunded liability	89,422
Transfers from other plans	8,198
Total increase in net assets	1,399,777
DECREASE IN NET ASSETS	
Pensions paid	393,345
Refunds of contributions/transfers	88,964
Administrative expenditures	9,630
Total decrease in net assets	491,939
INCREASE FOR THE YEAR	907,838
NET ASSETS AT BEGINNING OF YEAR	6,937,169
NET ASSETS AT END OF YEAR	**$ 7,845,007**

See accompanying notes

Statement of Administrative Expenses for the Year ended December 31, 1990

(000's)

Treasurer of Ontario (1)	$ 5,389
Salaries and benefits	1,635
Investment services	500
Professional consulting services	486
Training and development	328
Actuarial services	312
Office rental	230
Printing, stationery and computer supplies	186
Depreciation	94
Repairs and maintenance	85
Office equipment	80
Communications	80
Legal fees	56
Audit fees	36
Travel	33
Books and publications	25
Bank services	23
Telecommunications	20
Board services	20
Postage and distribution	6
Relocation costs	5
Insurance	1
	$ 9,630

(1) Services were provided during 1990 to the Public Service Pension Board by the Ministry of Government Services, Employee Pension and Benefits Administration Branch in the course of transferring responsibilities to the Board. The Board has estimated the 1990 liability at $5.389 million, although the total amount has not been finalized.

See accompanying notes

Notes to Financial Statements December 31, 1990

1. PUBLIC SERVICE PENSION ACT, 1989

On December 31, 1989 the Province of Ontario enacted new legislation governing the pension plan of the civil servants of the Province. The Public Service Pension Act, 1989 (the Act) repealed the Public Service Superannuation Act, 1980, as amended, and the pension plan which had been established thereunder was continued under the new legislation. The terms of the pension plan (the Plan) are disclosed in Schedule 1 to the Act and are effective January 1, 1990. The Public Service Pension Board (the Board) has been designated to administer the pension plan.

Effective January 1, 1990 the total assets and liabilities of the Public Service Superannuation Account maintained in the Consolidated Revenue Fund were transferred to the Board. The transfer was made by issuing $6.937 billion of Province of Ontario debentures.

The Act requires a valuation of the Plan as at January 1, 1990. Any going concern unfunded actuarial liability of the Plan determined by the valuation will be contributed in special monthly payments by the Province over a period of forty years, commencing January 1, 1990.

2. DESCRIPTION OF PLAN

The following is a brief description of the Plan. For more complete information, reference should be made to the Act.

a) *General*

The Plan is a contributory defined benefit pension plan and is mandatory for persons who satisfy eligibility requirements provided in the Act. Under the Plan, contributions are made by the members and the Province. The Plan is registered under the Pension Benefits Act of Ontario, 1987: #C-667/2.

b) *Contributions*

Member contributions are 8% of salary less the amount contributed to the Canada Pension Plan. Matching contributions are made by the sponsors.

Ontario Provincial Police members are required to contribute an additional 2% of salary to the Plan which is matched by the sponsor.

c) *Service Pensions*

A service pension is available based on the number of years of credited service, best five year average salary and the member's age less an offset for amounts received under the Canada Pension Plan. An unreduced pension can be received before age 65 if the member's age and service credit total 90 or when the member reaches age 60 and has 20 or more years of credited service.

Ontario Provincial Police members are eligible for an unreduced pension after attaining age 50 with 30 years of credited service.

d) *Death Benefits*

Death benefits are available to a surviving spouse or eligible children, or a designated beneficiary on the death of a member or a pensioner. The benefit may take the form of an immediate or deferred pension and/or a lump sum payment.

e) *Disability Pensions*

A pension is available to members at any age with a minimum of 10 years of credited service. The amount of the disability pension is dependent on credited service, average salary and eligibility criteria.

f) *Withdrawal Refunds*

Withdrawal refunds, with interest on contributions, are payable to members terminating employment upon application and subject to lock-in provisions of the Act.

g) *Income Taxes*

The Plan is not subject to income taxes.

h) *Escalation of Benefits*

Pension benefits are indexed to inflation based on the Consumer Price Index to a maximum of 8%. Any inflation above 8% is applied to the pension in subsequent years when the adjustment is less than 8%.

Notes to Financial Statements December 31, 1990

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles and present the financial position of the Plan as a separate entity independent of the sponsors and plan members. Significant accounting policies are as follows:

a) *Investments*

Investments are carried at cost. Included in accrued interest receivable is $530,378,000 representing interest accrued for the Province of Ontario debentures. The interest is payable annually on March 31.

Investment income includes $721,446,000 of interest earned on the Province of Ontario debentures during 1990.

b) *Contributions*

Contributions from members and sponsors received subsequent to the year-end, but which are applicable to the current year, are recorded as receivable. Contributions from buybacks and transfers are recorded when received from the members whereas the sponsors' matching contributions are recorded when the cases are processed and the matched amounts determined.

Interim payments from the Province are recorded in the year in which they are received.

c) *Pensions*

Payments of pensions are recorded in the year in which such payments are made.

d) *Fixed Assets*

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the fixed assets as follows:

Furniture and fixtures	10 years
Computer equipment	5 years
Leasehold improvements	10 years

4. INVESTMENTS

	Cost	Market Value
	(in 000's)	
Cash and short term investments	$ 218,812	$ 218,812
Government of Canada and Provincial bonds and debentures	6,880,661	6,888,763
Corporate bonds and debentures	100,152	101,260
Non-Canadian investments	46,677	47,055
	$ 7,246,302	$ 7,255,890

Notes to Financial Statements December 31, 1990

5. FIXED ASSETS

	1990		
	Cost	Accumulated Depreciation	Net
		(in 000's)	
Computer equipment	$ 1,152	$ 77	$ 1,075
Leasehold improvements	1,442	12	1,430
Furniture and fixtures	600	5	595
	$ 3,194	$ 94	$ 3,100

The Board is committed under a ten year lease for office premises at One Financial Place, Toronto, at an annual net rental of $1 million commencing 1991.

6. OBLIGATIONS FOR PENSION BENEFITS

In accordance with the Act, an initial actuarial valuation of the Plan as at January 1, 1990 is in progress and will be subject to agreement by the Chairman of the Management Board of Cabinet and the Treasurer prior to filing with the Pension Commission of Ontario. The Province is required to fund by special payments over the next forty years, commencing January 1, 1990, any unfunded actuarial liability determined by the valuation.

The Province prepared a report on the unfunded actuarial liability of the Plan based on December 31, 1987 data which was projected to January 1, 1990 and was estimated to be $1.9 billion.

Since January 1, 1990 the Province has been providing interim monthly payments to the Board as required by Schedule 2 to the Act.

History of the Plan for Ontario Pensioners

1920 Public Service Superannuation Act (PSSA)

1931 Introduction of disability allowances.

1958 Establishment of deferred annuities.

1965 Retirement age increased from 60 to 65. Pension plan was integrated with Canada Pension Plan. Average salary period increased from 3 to 5 years for pension entitlement calculation.

1969 Common law widows recognized as eligible survivors.

1971 Widowers entitled to same benefits as widows.

1975 Superannuation Adjustment Benefits Act
Legislation introduced for automatic indexing of pensions.

1983 Continuation of survivor pensions on re-marriage.

1987 Pension Benefits Act
Comprehensive amendments for administration of pension plans and establishment of regulatory requirements.

1989 Public Service Pension Act
Amalgamation of previous legislation governing pension plans of Province of Ontario employees and establishment of the Public Service Pension Board.

Directors

Board of Directors

WILLIAM H. SOMERVILLE, L.L.D.
Chairman
Former Chairman and CEO
National Trust

WILLIAM J. CORCORAN
Vice Chairman
Executive Vice-President
ScotiaMcLeod Inc.

RONALD C. BROWN, Q.C.
Senior Partner
Blake, Cassels & Graydon

HARRIET L. DEKOVEN
Manager
Federal-Provincial Programs,
Ministry of Treasury & Economics

WILLIAM J. FISHER
Former Vice-President
Human Resources,
Chrysler Corporation

DANIEL L. MCCAW
President
William M. Mercer Limited

R. GRANT SCHARF
Sergeant
Ontario Provincial Police
Chairman, Ontario Provincial Police
Association

JAMES R. THOMAS
Assistant Deputy Minister
Human Resources Secretariat

NANCY THOMSON
Founder, Investing for Women
Investment Consultant

Investment Committee

* WILLIAM J. CORCORAN
RONALD C. BROWN
HARRIET L. DEKOVEN
WILLIAM H. SOMERVILLE
NANCY THOMSON

Audit Committee

* RONALD C. BROWN
R. GRANT SCHARF
JAMES R. THOMAS
NANCY THOMSON

Human Resources Committee

* WILLIAM J. FISHER
WILLIAM J. CORCORAN
HARRIET L. DEKOVEN
DANIEL L. MCCAW
WILLIAM H. SOMERVILLE

Pension Policy Committee

* DANIEL L. MCCAW
WILLIAM J. FISHER
R. GRANT SCHARF
WILLIAM H. SOMERVILLE
JAMES R. THOMAS

* Chairman

Officers and Staff

Officers

WILLIAM H. SOMERVILLE
Chairman

JAMES J. WILBEE
President

JON-JO A. DOUGLAS
VP Policy and Legal Counsel

ROBERT F. KAY
VP Investments

LEONARD LU
VP Corporate Resources

BRIAN G. MILLS
VP Plan Administration

Staff Directors

LINDA J. BOWDEN
Director, Human Resources

GULU CHADHA
Treasurer

DANIEL P. EDWARDS
Director, Plan Administration

M. JANG HONG
Director, Administrative Services

SHERRY J. MACDONALD
Director, Finance

THOMAS T. ROBINS
Director, Internal Audit

RON YEUNG
Director, Information Technology